

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-4986

March 28, 2019

R E S O L U T I O N

Resolution E-4986. Approving a Contract Between Southern California Edison and GenOn Energy Management, LLC for Resource Adequacy Capacity from Ormond Beach Generating Station.

PROPOSED OUTCOME:

- This resolution would approve the contract without modification.

SAFETY CONSIDERATIONS:

- There is no anticipated impact on safety.

ESTIMATED COST:

- Contract costs are confidential at this time. The Commission finds that the cost impact of this contract for ratepayers would likely be less than the cost impact of backstop procurement by CAISO to meet local reliability needs in the Moorpark subarea.

By Advice Letter 3885-E, Filed on November 5, 2018.

SUMMARY

This Resolution would approve – without modification – a contract between Southern California Edison (“SCE”) and GenOn Energy Management, LLC for resource adequacy capacity from Unit 2 at Ormond Beach Generating Station (“Ormond Beach”). SCE entered into the contract pursuant to Decision (D.)18-06-030, in which the Commission directed SCE to attempt to secure capacity from Ormond Beach to meet anticipated local reliability needs in 2019 and 2020. D.18-06-030 also authorized SCE to allocate the benefits and costs of any such

contracts via a mechanism similar to the existing Cost Allocation Mechanism (“CAM”).

SCE previously submitted a contract for Unit 2 of Ormond Beach, with a term of January 1, 2019 through November 30, 2019, via Tier 2 Advice Letter 3854-E. Energy Division approved that advice letter in September 2018. SCE subsequently filed the contract that the Commission considers here (“2020 Ormond Contract”) via Tier 3 Advice Letter 3885-E. The 2020 Ormond Contract has a term of December 1, 2019 through December 31, 2020 and would therefore cover the remaining timeframe over which the Commission directed procurement in D.18-06-030.

BACKGROUND

Ormond Beach is a natural gas fueled power plant owned by GenOn Energy Management, LLC, a subsidiary of NRG. Ormond Beach is located in Ventura County, California – within the Moorpark subarea of the Big Creek/Ventura local reliability area – and consists of two 750 MW combustion turbines connected to the SCE Ormond Beach 220/66kV substation. Ormond Beach uses seawater for once-through cooling of its turbines, and as such, it is subject to the State Water Resources Control Board’s “Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling” (“OTC Policy”), with which it must comply by December 31, 2020.

On February 28, 2018, NRG submitted a letter to the Commission declaring its intent to retire both units of Ormond Beach on October 1, 2018. CAISO subsequently published its *2019 Local Capacity Technical Analysis: Final Report and Study Results* (“2019 Local Analysis”) on May 5, 2018, in which it indicated that

One unit at Ormond Beach, among resources that ask for retirement through CPUC GO 167 and ISO 90-day notices, has been found to be required to meet the 2019 local capacity requirement in the Moorpark sub-area. There are only 255 MW of total available resources in the sub-area without both Ormond Beach units. The need for one Ormond Beach unit will be mitigated after the Moorpark-Pardee

*#4 230 kV transmission project is in service, currently scheduled for December 31, 2020.*¹

Recognizing that “[o]ne of the primary purposes of [R.17-09-020] Track 1 consideration of a multi-year local procurement framework was to reduce or eliminate the need for backstop procurement,”² in D.18-06-030, the Commission directed SCE to attempt to secure resource adequacy contracts for one unit of Ormond Beach through 2020, “only if doing so is expected to be less costly than any applicable backstop procurement measures.”³ The Commission further directed SCE to file any contract with Ormond Beach via a Tier 3 advice letter⁴ and to procure flexible attributes, if possible.⁵ The costs of these contracts would be allocated to ratepayers of load serving entities in the SCE Transmission Access Charge area via a mechanism similar to CAM.⁶ The Commission further stated that, notwithstanding concerns regarding procurement on behalf of all ratepayers and procurement of fossil fuel fired resources in disadvantaged communities, a contract with Ormond Beach “is merely a bridge to ensure reliable operation of the grid while more durable solutions are being considered.”⁷

SCE subsequently negotiated contracts with Ormond Beach during the summer of 2018. On September 4, 2018, SCE filed a Tier 2 advice letter (AL 3854-E) seeking approval of a contract for Unit 2 of Ormond Beach, with a term of

¹ CAISO, *2019 Local Capacity Technical Analysis: Final Report and Study Results*, p. 62, available at <http://www.caiso.com/Documents/Final2019LocalCapacityTechnicalReport.pdf>.

² D.18-06-030 at 35

³ *Ibid.* at 35

⁴ *Ibid.* at 35

⁵ *Ibid.* at 36

⁶ *Ibid.* at 35

⁷ *Ibid.* at 36

January 1, 2019 through November 30, 2019.⁸ The Commission approved this advice letter on September 26, 2018, with an effective date of October 4, 2018. On November 5, 2018, SCE filed a Tier 3 advice letter (AL 3885-E) seeking approval of a second contract for Unit 2 of Ormond Beach, with a term of December 1, 2019 through December 31, 2020. Advice Letter 3885-E is the subject of this Resolution.

NOTICE

Notice of AL 3885-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was mailed and distributed in accordance with Section 4 of General Order 96-B.

PROTESTS

Advice Letter 3885-E was not protested.

Pursuant to Section 7.4 of General Order 96-B, CAISO submitted a response to Advice Letter 3885-E on November 26, 2018. In its response, CAISO indicated its support for the contract with Ormond Beach and stated that the contract would avoid the need for a Reliability Must Run ("RMR") designation for Ormond Beach in 2020.⁹ CAISO also stated that, although it could not expressly confirm any cost savings, SCE had

provided a persuasive explanation that the compensation is at, or below, the CAISO's alternative capacity payment mechanism backstop compensation and is comparable to the compensation structure in the two Calpine RMR agreements accepted by FERC.¹⁰

⁸ D.18-06-030 (at 35) also directed SCE to attempt to procure a contract for Ellwood Generating Station. Accordingly, AL 3854-E included a contract for Ellwood Generating Station, with a term of January 1, 2019 through November 30, 2019.

⁹ CAISO Response at 2

¹⁰ Ibid. at 2

SCE did not submit a reply to CAISO's response.

DISCUSSION

Based on direction in D.18-06-030 and prior decisions, the Commission identified five primary criteria against which to test the 2020 Ormond Contract for compliance and reasonableness: (1) that the contract meets reliability needs, (2) that the contract is likely less costly than backstop procurement, (3) that SCE attempted to contract for attributes of Ormond Beach that would be unavailable under backstop procurement, (4) that the contract complies with OTC Policy requirements, and (5) that SCE's contracting process met CAM Procurement Review Group ("PRG") requirements. The discussion below presents the results of the Commission's analysis relative to each of these five criteria.

The 2020 Ormond Contract Meets Reliability Needs in the Moorpark Subarea

In its *2019 Local Analysis*, CAISO asserts that "[t]he need for one Ormond Beach unit will be mitigated after the Moorpark-Pardee #4 230 kV transmission project is in service, currently scheduled for December 31, 2020."¹¹ The 2020 Ormond Contract ends on December 31, 2020. Therefore, the Commission finds that the 2020 Ormond Contract does meet reliability needs identified by CAISO in the Moorpark subarea.

The 2020 Ormond Contract is Likely Less Costly than Backstop Procurement by CAISO

Were Ormond Beach not to secure a resource adequacy contract for December 2019 forward, it is highly likely that CAISO would use its backstop procurement authority to obtain capacity from Ormond Beach once the existing contract with SCE (through November 30, 2019) expires. This could occur via either of two mechanisms: an RMR designation under Section 41 of the CAISO Tariff or a Capacity Procurement Mechanism ("CPM") designation under Section 43A of the CAISO Tariff. CAISO has already laid the groundwork for an RMR designation of Ormond Beach by indicating a need in its *2019 Local Analysis*.¹²

¹¹ CAISO, *2019 Local Analysis*, p. 62

¹² *Ibid.*, pp. 61-62

Under the CAISO Tariff, Ormond Beach could not refuse an RMR designation, though it could negotiate full cost recovery with CAISO, subject to FERC approval.¹³ Alternatively, were Ormond Beach to pursue a CPM designation, the most likely avenues (given the known capacity need in the Moorpark subarea through 2020) would be the monthly or annual CPM competitive solicitation processes. These are auction mechanisms with a soft offer cap of \$6.31/kW-month, though Ormond Beach could petition FERC for additional cost recovery under Section 43A.4.1.1.1 of the CAISO Tariff.

SCE used publicly available data on annual fixed revenue requirements to calculate the capacity prices of a recent RMR contract with Metcalf Energy Center and a second recent RMR contract with Yuba City Energy Center and Feather River Energy Center, arriving at \$6.04/kW-month for the former and \$6.13/kW-month for the latter.¹⁴ Based on this comparison, SCE asserts that the capacity price in the 2020 Ormond Contract is lower than the prices of recent RMR contracts and is also lower than the CPM soft offer cap.¹⁵ SCE also asserts that the capacity price in the 2020 Ormond Contract is comparable to the price of a 2018 contract between SCE and Ormond Beach; the price of its existing 2019 contract with Ormond Beach Unit 2, which the Commission approved via AL 3854-E; and the prices of contracts with Alamitos, Huntington Beach, and Redondo Beach (other generators subject to the OTC Policy) that the Commission approved in 2016.¹⁶

The Commission has reviewed the 2020 Ormond Contract, as well as SCE's RMR price calculations and the recent contracts that SCE cites. The Commission agrees that the price of the 2020 Ormond Contract is comparable to the prices of other recent contracts for local resource adequacy capacity and is likely less than the per-kilowatt-month cost of backstop procurement by CAISO that would occur in the absence of any contract for Ormond Beach through 2020.

¹³ See CAISO Tariff Section 41.2

¹⁴ AL 3885-E at 4 and Confidential Attachment A at 1

¹⁵ Ibid. at 3 and Confidential Attachment A at 1

¹⁶ Ibid. at 5 and Confidential Attachment A at 2-3

The 2020 Ormond Contract Includes Attributes That Would Be Unavailable Under Backstop Procurement

SCE asserts that bilateral contracts may incorporate additional attributes that are unavailable under backstop procurement by CAISO, including flexible attributes and a Must Offer Obligation in the Day Ahead Market and the Real Time Market.¹⁷ Following review of the 2020 Ormond Contract and other confidential information submitted by SCE, the Commission confirms that the 2020 Ormond Contract secures attributes that would be unavailable (or available at higher cost) under the current RMR or CPM mechanisms.

The 2020 Ormond Contract Meets the OTC Policy Requirements Set Forth in D.12-04-046

D.12-04-046 established criteria for contracts with generators subject to the OTC policy that have terms of between two and five years. These criteria require the investor-owned utility to describe the following in its Tier 3 advice letter:

*1) how the contract helps facilitate compliance with the SWRCB OTC policy, or at a minimum why it does not delay compliance; 2) the expected operation of the OTC facility under normal load (1 in 2) and high load (1 in 10) conditions, including number of starts and run time after each start; 3) the LCR net position with and without the OTC facility over the contract duration and two years beyond the contract duration; and 4) how any other available generation resources compare under these criteria.*¹⁸

Although the 2020 Ormond Contract does not cover a term between two and five years, SCE describes its compliance with these four criteria in AL 3885-E. SCE states that through consultation with GenOn Energy Management, LLC, it confirmed that the 2020 Ormond Contract would not affect compliance with Ormond Beach's OTC Policy compliance date.¹⁹ SCE also states that it cannot predict how Ormond Beach will operate under the 2020 Ormond Contract, as the

¹⁷ Ibid. at 5 and Confidential Attachment A at 3

¹⁸ D.12-04-046 at 26

¹⁹ AL 3885-E at 6

contract is for capacity (not for energy), and CAISO will manage dispatch through its energy markets.²⁰ SCE asserts that the 2020 Ormond Contract “was bilaterally negotiated and reasonably compares to other bilateral contracts and expected [resource adequacy] costs for needed local area resources.”²¹ Finally, SCE served the Commission with confidential information regarding its net short position from 2019 through 2021 with and without the 2020 Ormond Contract,²² as well as with public information regarding its net short position in 2022 with and without the 2020 Ormond Contract.²³

D.12-04-046 also established requirements for contracts with a generator subject to the OTC Policy that terminate within one year of that generator’s compliance deadline. This definition does apply to the 2020 Ormond Contract. Specifically, the Commission required that investor-owned utilities submit any such contract via a Tier 3 advice letter²⁴ and that this Tier 3 advice letter “specifically show how the agreement helps facilitate compliance with the SWRCB policy regarding OTC.”²⁵ Whereas the 2020 Ormond Contract does not necessarily “facilitate compliance” with the OTC Policy, given the clear need for local capacity in the Moorpark subarea and the fact that the 2020 Ormond Contract will not delay compliance with the OTC Policy, the Commission finds that SCE has sufficiently fulfilled the filing requirements of D.12-04-046.

Southern California Edison Has Met the Procedural Requirements of D.06-07-029

²⁰ Ibid. at 6

²¹ Ibid. at 7

²² AL 3885-E Confidential Appendix A at 4

²³ AL 3885-E at 6 and Confidential Appendix A at 4

²⁴ D.12-04-046 at 25

²⁵ Ibid. at 26 and OP 3b

D.06-07-029 required the investor-owned utilities to consult with their PRGs regarding contracts subject to the CAM.²⁶ The Commission confirms that SCE discussed the 2020 Ormond Contract with its PRG on August 20, 2018.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review. Section 311(g)(2) provides that this 30-day review period and 20-day comment period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day review and 20-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, the draft resolution was mailed to parties for comments on February 13, 2019. The Commission did not receive any comments on the draft resolution.

FINDINGS AND CONCLUSIONS

1. On February 28, 2018, NRG (the parent company of GenOn Energy Management, LLC) filed a letter with the Commission declaring its intent to retire both units of Ormond Beach Generating Station ("Ormond Beach") on October 1, 2018.
2. On May 15, 2018, CAISO issued its *2019 Local Capacity Analysis: Final Report and Study Results*, which found that one unit of Ormond Beach is required to meet local reliability needs in the Moorpark subarea in 2019 and 2020.
3. Ormond Beach is subject to the State Water Resources Control Board's "Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling" ("OTC Policy") and has a compliance deadline of December 31, 2020.
4. D.12-04-046 (at 25) directed that any power purchase agreement with a generator subject to the OTC Policy that terminates one year or less prior to

²⁶ D.06-07-029 at 28

the generator's compliance deadline must be submitted to the Commission for approval via a Tier 3 advice letter.

5. D.18-06-030 (at 35) directed Southern California Edison to negotiate a resource adequacy contract for Ormond Beach in 2019 and 2020 and, if successful, to submit the contract via a Tier 3 advice letter.
6. D.18-06-030 (at 36) expressed the Commission's expectation that Southern California Edison would also attempt to procure any flexible attributes of Ormond Beach.
7. On August 20, 2018, Southern California Edison consulted with its CAM Procurement Review Group regarding contracts for Ormond Beach into which it had entered pursuant to D.18-06-030.
8. On September 4, 2018, Southern California Edison filed Advice Letter 3854-E (Tier 2), seeking approval of a contract with GenOn Energy Management, LLC for Unit 2 of Ormond Beach Generating Station with a term of January 1, 2019 through November 30, 2019.
9. On September 26, 2018, Energy Division approved Advice Letter 3854-E, with an effective date of October 4, 2018.
10. On November 5, 2018, Southern California Edison filed Advice Letter 3885-E (Tier 3), seeking approval of a contract with GenOn Energy Management, LLC for Unit 2 of Ormond Beach with a term of December 1, 2019 through December 31, 2020 ("2020 Ormond Contract").
11. The 2020 Ormond Contract includes 750 MW of Local and System capacity from Unit 2, as well as flexible attributes of the resource, and it will ensure the availability of this capacity to CAISO throughout the contract term.
12. The cost of the 2020 Ormond Contract to California ratepayers is likely less than the cost of backstop procurement by CAISO that would occur in the absence of a resource adequacy contract with Ormond Beach.
13. The 2020 Ormond Contract terminates on the OTC Policy compliance date for Ormond Beach and does not delay compliance with the OTC Policy.

14. The 2020 Ormond Contract complies with the Commission's direction in D.06-07-029, D.12-04-046, and D.18-06-030.
15. The 2020 Ormond Contract is reasonable and prudent for all purposes including, but not limited to, recovery in rates of payments made pursuant to the 2020 Ormond Contract, subject only to further review with respect to the reasonableness of Southern California Edison's administration of the 2020 Ormond Contract.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Edison to approve the resource adequacy contract with GenOn Energy Management, LLC, as requested in Advice Letter 3885-E, is approved.
2. Southern California Edison is authorized to allocate the benefits and costs of this contract to all benefitting customers in a manner similar to other CAM resources, in accordance with D.18-06-030.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on March 28, 2019; the following Commissioners voting favorably thereon:

/s/ALICE STEBBINS
ALICE STEBBINS
Executive Director

MICHAEL PICKER
President
LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN

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GENEVIEVE SHIROMA
Commissioners